

Chapter 3

Trade outcomes

Introduction

3.1 This chapter considers the trade outcomes achieved by ChAFTA, the timing of entry into force, technical barriers to trade, and Australia's trade relationships.

Value of trade outcomes

3.2 Tariff reductions for Australian products (particularly agricultural) exported to China were highlighted as key outcomes of ChAFTA. On entry into force, 85 per cent of Australia's exports (by value in 2013) to China will enter duty free, rising to 93 per cent on full implementation. The Department of Foreign Affairs and Trade (DFAT) *Outcomes at a Glance* document states:

For agriculture, the Australian Government has secured elimination of tariffs on entry into force for barley and sorghum, and rapid tariff reduction on other agriculture exports, including seafood, sheepmeat, pork and a variety of horticulture. Other key agriculture outcomes include:

- dairy: tariffs up to 20 per cent eliminated within 4 to 11 years.
- beef: tariffs of 12 to 25 per cent eliminated over 9 years.
- wine: tariffs of 14 to 20 per cent eliminated over 4 years.
- wool: a new Australia-only duty free quota, in addition to continued access to China's WTO quota.

3.3 Further, on entry into force, 92.9 per cent of Australia's resources, energy and manufactured products exports will enter China duty free, with most remaining tariffs removed within four years.¹

3.4 For the Australian services suppliers in ChAFTA, China has offered a number of services sector commitments.² Key outcomes include:

- legal services: Guaranteed market access for Australian law firms to establish commercial associations with Chinese law firms in the Shanghai Free Trade Zone (SFTZ);
- education services: Within one year of entry into force, China will list on a key Ministry of Education website 77 Australian private higher education institutions registered on the Commonwealth Register of Institutions and Courses for Overseas Students (CRICOS);

1 Department of Foreign Affairs and Trade, *Outcomes at a Glance*, available at: <http://dfat.gov.au/trade/agreements/chafta/fact-sheets/Pages/key-outcomes.aspx> (accessed 8 October 2015).

2 Department of Foreign Affairs and Trade, *Outcomes at a Glance*, available at: <http://dfat.gov.au/trade/agreements/chafta/fact-sheets/Pages/key-outcomes.aspx> (accessed 8 October 2015).

- telecommunications services: Guaranteed market access for Australian companies investing in specified value-added telecommunications services in the Shanghai Free Trade Zone (SFTZ), providing greater certainty for Australian telecommunications investments in the SFTZ.
- financial services: China has committed to deliver new or improved market access to Australian financial services providers in the banking, insurance, funds management, securities, securitisation and futures sectors.
- Tourism and travel-related services: China has guaranteed that Australian services suppliers will be able to construct, renovate and operate wholly Australian-owned hotels and restaurants in China.
- Health and aged care services: China will permit Australian service suppliers to establish profit-making aged care institutions throughout China, and wholly Australian-owned hospitals in certain provinces. This will greatly expand the Australian private health sector's offering of medical services through East Asia.³

3.5 Remaining Australian tariffs on Chinese imports will be eliminated progressively. The DFAT *Outcomes at a Glance* document states this will allow consumers and businesses to 'benefit from lower prices and greater availability of Chinese products'.⁴

3.6 A number of submissions were received from businesses and commercial organisations which would be impacted by the trade outcomes of ChAFTA. This included a large number of agribusiness organisations representing those involved in wine, beef, pork, dairy, wool and others. For example the National Farmers' Federation strongly supported the agreement and said it will 'provide millions of dollars in export value to Australian farmers'.⁵ The Seafood Trade Advisory Group stated that 'direct access to our largest market in China will result in increased competitiveness for Australian product directly traded into mainland China enabling investment in supply chains and infrastructure'.⁶

3.7 GrainGrowers also supported ChAFTA, although it offers no preferential access to its largest export, wheat. GrainGrowers noted:

However, the deal is extremely important to our industry because of the preferential tariff access achieved for other important Australian grain exports. The deal is also a critical step in underpinning the very important

3 Department of Foreign Affairs and Trade, *Outcomes at a Glance*, available at: <http://dfat.gov.au/trade/agreements/chafta/fact-sheets/Pages/key-outcomes.aspx> (accessed 8 October 2015).

4 Department of Foreign Affairs and Trade, *Outcomes at a Glance*, available at: <http://dfat.gov.au/trade/agreements/chafta/fact-sheets/Pages/key-outcomes.aspx> (accessed 8 October 2015).

5 *Submission 22*, p. 5.

6 *Submission 12*, p. 1.

and mutually beneficial Australia-China trade relationship and because it provides the basis on which to enhance trade in the future.⁷

3.8 The Minerals Council of Australia was also supportive of ChAFTA:

On minerals and energy, ChAFTA strengthens trade and investment opportunities through tariff reductions and elimination, liberalising arrangements on mining related services and investment, machinery to review and address non-tariff measures, and provisions on labour movement.⁸

3.9 The Australian Bankers' Association characterised ChAFTA as ground breaking for the banking industry and supported the efforts to reduce and remove impediments to trade in financial services. It stated the agreement will 'facilitate deeper participation by Australian financial institutions in China and strengthen financial services trade and investment in both directions'.⁹ Similarly, the Financial Services Council (FSC) urged swift implementation. It noted:

Financial services cannot be exported easily unlike commodities for example. They rely on the construction of regulatory architecture. This agreement between Australian and Chinese governments delivers this architecture. Because of this architecture, trade with China and therefore economic growth will increase. In a tangible sense, ChAFTA will have a positive impact on employment and investment. This agreement will lead to significant growth in exports of funds and management services.¹⁰

3.10 However, others businesses and industry groups considered ChAFTA would have detrimental outcomes. For example, representatives of the paper industry saw the tariff arrangements for paper products as inequitable and stated that removing the import tariff while maintaining the export tariff would 'adversely impact the competitiveness of the sector'.¹¹ Armstrong World Industries, a manufacturer of vinyl floor and wall products, was also concerned that inequitable tariff arrangements would affect the viability of its business, and requested that the import tariff reduce over a five-year period as the export tariff does.

3.11 The Australian Industry Group, while it supported the ratification of ChAFTA, also pointed out the inequitable tariff arrangements which will affect industries such as the Australian Fibre Packaging Industry, which has no scheduled tariff rate reduction for its exports while Chinese imports will have zero tariffs from day one of entry into force. It recommended:

- That DFAT strives to address the concerns of the paper packaging industry when negotiating with China in RCEP negotiations.

7 *Submission 39*, p. 2.

8 *Submission 53*, p. 25.

9 *Submission 36*, p. 6.

10 *Submission 47*, p. 3.

11 *Submission 48*, p. 2.

- That DFAT is directed to never accept an FTA deal where Australia offers any tariff advantage that is not reciprocated by the FTA partner.¹²

3.12 The Australian Fair Trade & Investment Network (AFTINET) did not consider tariff arrangements under ChAFTA to be in Australia's national interest, stating that the National Interest Analysis (NIA) does not weigh the estimated 'very small increases in GDP of 0.05%-0.11% after 20 years' against the risks and losses resulting from the agreement, including:

- loss of employment in manufacturing industry from increased imports resulting from zero tariffs;
- loss of potential local employment and lower labour standards in Australia from expansion of temporary labour employed at minimum rates not market rates;
- losses to government revenue from reductions in tariffs;
- competition from imported goods produced without enforceable labour rights for workers and without enforceable environmental standards;
- health and safety impacts of imported goods which may not conform to Australian safety standards; and
- losses resulting from possible regulatory risks and costs to government arising from ISDS.¹³

3.13 Civil Liberties Australia expressed concern that economic modelling for ChAFTA was optimistic and noted that previous agreements had not lived up to the promises of government.¹⁴ The submission stated that:

The assessment done by the Centre for International Economics (CIE), using fairly optimistic assumptions, predicts negligible benefits after 20 years from the combined effects of ChAFTA and the free trade agreements with Korea and Japan—in the order of 0.11% after 20 years of operation.¹⁵

Entry into force

3.14 The importance of prompt entry into force was repeatedly emphasised. For example, the Business Council of Australia noted that Australian exporters would receive a tariff cut at ratification and receive another tariff cut on 1 January every year after that. This meant that failure to ratify the ChAFTA by 31 December 2015 would mean Australia would miss out on an immediate double tariff cut next year.¹⁶

12 *Submission 62*, p. 2.

13 *Submission 14*, p. 5.

14 *Submission 30*, p. 4.

15 *Submission 30*, p. 4.

16 *Submission 68*, p. 2.

Technical barriers to trade

3.15 Several submissions focused on other barriers to trade. The National Farmers' Federation, while it welcomed the agreement, observed that trade with China for many commodities will be inhibited by the non-tariff barriers. It gave the Australian pork industry as an example:

While the China agreement reduces tariffs for Australian pork, further work is required to negotiate the import protocols and export processor accreditation before Australian producers can start to take advantage of the opportunities provided under the agreement.¹⁷

3.16 The Construction, Forestry, Mining and Energy Union (CFMEU) stated that China has established non-tariff, or technical, barriers to trade which would inhibit Australian exporters from realising the benefits of the tariff reductions. It used the coal industry as an example and stated that China has ramped up:

...unfair protection of their domestic coal mining industry through the erection of non-tariff barriers on imported coal including from Australia. The reality is that Australian exports are not just dropping because of the recent imposition of tariffs and falling demand but that China is engaging in protectionist measures to help its domestic coal industry and ChAFTA would appear to be helpless to change that.¹⁸

3.17 In comparison, the Australian Industry Group, which had expressed concern about non-tariff barriers to trade in a submission during the negotiation period of ChAFTA, congratulated 'DFAT in securing a formal mechanism to address ongoing issues with non-tariff barriers faced by Australian exporters'.¹⁹ Similarly, Citrus Australia was satisfied that technical barriers had been dealt with within the agreement, stating:

Advantages gained through reductions in tariffs, quotas and agricultural safeguards are obvious to everyone. However, ChAFTA also includes text on access to adequate port infrastructure, streamlined customs and inspection services (particularly for perishable goods), and a commitment to ongoing dialogue on sanitary and phytosanitary issues, along with other technical barriers.²⁰

Australia's trade relationships

3.18 ChAFTA was frequently assessed by submitters in the broader context of Australia's other trade relationships and trade agreements, and those of Australia's competitors. For example, the Australian Chamber of Commerce and Industry stated that 'ChAFTA will ensure Australian goods exporters overcome the competitive disadvantage compared with countries that already have free trade agreements with

17 *Submission 22*, p. 6.

18 *Submission 66*, p. 39.

19 *Submission 62*, p. 1.

20 *Submission 63*, p. 6.

China, and will create opportunities to build competitive advantage in goods and services'.²¹

3.19 The Export Council of Australia considered ChAFTA would provide a 'significant competitive advantage' and believed it counters advantages held by Chile and New Zealand through their trade agreements with China.²² It also noted that the agreement was not inconsistent with other negotiations Australia is party to and stated:

Indeed, those other agreements may well be advanced by ChAFTA. For example, the provisions in ChAFTA aimed at facilitating trade, such as in the Chapters on Customs Procedures and Trade Facilitation and Electronic Commerce will form the basis for bilateral improvements which are now required pursuant to the TFA [WTO Trade Facilitation Agreement].²³

3.20 In contrast, other submissions were critical of Australia's approach to trade agreements and policy. For example, the Australian Manufacturing Workers' Union (AMWU) described Australia's trade policy as 'driven by an unflinching adherence to the doctrine of free trade'. It argued that:

...trade policy in Australia continues to be based on a doctrine that fails to consider how trade actually operates in the real world, fails to reflect the real economic costs and benefits of trade agreements and other policies and as a result policies fail to generate the benefits that they promise'.²⁴

3.21 The AMWU highlighted that in 2010, the Productivity Commission had found 'little evidence from business to indicate that bilateral agreements to date have provided substantial commercial benefits' and that the 'increase in national income from preferential agreements is likely to be modest'.²⁵

21 *Submission 35*, p. 3.

22 *Submission 60*, p. 8.

23 *Submission 60*, p. 9.

24 *Submission 63*, p. 2.

25 *Submission 63*, p. 6.